

**REPORT OF THE AUDIT OF THE
BOYD COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BOYD COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Boyd County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$8,930 from the prior year, resulting in excess fees of \$9,276 as of December 31, 2005. Revenues increased by \$174,733 from the prior year and expenditures increased by \$165,803.

Debt Obligations:

The Office of the Sheriff is committed to a lease agreement for computer equipment. This agreement requires a monthly payment of \$102 for 36 months to be completed on April 15, 2006. The outstanding balance under this agreement is \$409 as of December 31, 2005.

The Office of the Sheriff entered into a lease agreement for a digital copier on April 20, 2005. This agreement requires a monthly payment of \$348 for 60 months to be completed on March 20, 2010. The outstanding balance for this agreement is \$18,089 as of December 31, 2005.

Report Comments:

- The Sheriff Should Invest Money In Interest-Bearing Bank Accounts
- The Sheriff Should Comply With Federal And State Wage And Hour Laws

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William C. Stevens, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Boyd County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable William C. Stevens, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Invest Money In Interest-Bearing Bank Accounts
- The Sheriff Should Comply With Federal And State Wage And Hour Laws

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Boyd County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 2, 2006

BOYD COUNTY
TERRY KEELIN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	12,585
State Grants			74,787
State - Kentucky Law Enforcement Foundation Program Fund			58,885
State Fees For Services:			
Finance and Administration Cabinet			182,983
Circuit Court Clerk:			
Sheriff Security Service	\$	50,364	
Fines and Fees Collected		<u>7,127</u>	57,491
Fiscal Court			175,040
County Clerk - Delinquent Taxes			6,119
Commission On Taxes Collected			653,398
Fees Collected For Services:			
Auto Inspections		32,015	
Accident and Police Reports		6,064	
Serving Papers		54,773	
Carrying Concealed Deadly Weapon Permits		18,055	
Sheriff's Add-On Fees		76,152	
Sheriff's Advertising Fees		6,848	
Sheriff's Fees		<u>2,420</u>	196,327
Other:			
Petty Cash Balance		100	
Miscellaneous		<u>1,670</u>	1,770
Borrowed Money:			
Bank Note			<u>400,000</u>
Total Revenues			<u>1,819,385</u>

The accompanying notes are an integral part of this financial statement.

BOYD COUNTY
TERRY KEELIN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$ 650,886	
Kentucky Law Enforcement Foundation Program Fund	53,604	
Contract Labor	53,200	\$ 757,690

Employee Benefits-

Employer's Share Social Security	55,069	
Employer Paid Health Insurance	244,235	299,304

Contracted Services-

Advertising	1,808	
Vehicle Maintenance and Repairs	16,885	18,693

Materials and Supplies-

Office Materials and Supplies	20,892	
Uniforms	25,722	46,614

Auto Expense-

Gasoline		54,439
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Other Charges-

Transporting Prisoners	10,190	
Training	7,819	
Dues	5,037	
Postage	16,038	
Utilities	4,558	
Bond	578	
Carrying Concealed Deadly Weapon Permits	6,555	
Computer Services	11,603	
Audit	8,500	
Body Armor Grant Expenditures	74,787	
Miscellaneous	9,455	155,120

Debt Service:

Notes		400,000
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Total Expenditures

1,731,860

Net Revenues

87,525

Less: Statutory Maximum

78,249

Balance Due Fiscal Court at Completion of Audit*

\$ 9,276

*Note: The Sheriff presented a check to the County Treasurer for the balance due Fiscal Court on September 20, 2006.

The accompanying notes are an integral part of this financial statement.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. . The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Note Payable

During the year, the Office of the Sheriff was liable for an unsecured note payable to Kentucky Farmers Bank in the amount of \$400,000. The purpose of the note was to pay operating expenses of the office. The note matured upon demand and the interest rate was zero percent. The Office of the Sheriff was in compliance with the terms of the agreement. The loan was repaid in full on December 27, 2005.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 5. Leases

The Office of the Sheriff is committed to a lease agreement for computer equipment. This agreement requires a monthly payment of \$102 for 36 months to be completed on April 15, 2006. The outstanding balance under this agreement was \$409 as of December 31, 2005.

The Office of the Sheriff entered into a lease agreement for a digital copier on April 20, 2005. This agreement requires a monthly payment of \$348 for 60 months to be completed on March 20, 2010. The outstanding balance for this agreement was \$18,089 as of December 31, 2005.

Note 6. Grant

The Office of the Sheriff applied for and received a body armor grant, pursuant to KRS 16.220 that establishes a fund in the Governor's Office for Local Development to provide for body armor. The Sheriff's office received and expended \$74,787 of grant funds during 2005.

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COMMENTS AND RECOMMENDATIONS

BOYD COUNTY
TERRY KEELIN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Invest Moneys In Interest-Bearing Accounts

The Sheriff deposited funds into a non-interest-bearing bank account. KRS 66.480 states that the Sheriff may, and at the direction of the fiscal court shall, invest and reinvest money subject to their control and jurisdiction. Prudent financial management dictates that the Sheriff take advantage of earnings potential by depositing funds into interest-bearing bank accounts. We recommend the Sheriff invest all funds into interest-bearing bank accounts.

Sheriff's Response:

None.

The Sheriff Should Comply With Federal And State Wage And Hour Laws

The Sheriff has a policy whereby compensation for transporting prisoners is paid to each deputy at the rate of \$100 net pay per day. Deputies are only allowed to transport prisoners on their day off. The amount of time worked while deputies are transporting prisoners is not considered when calculating the total hours worked per week when considering overtime pay.

The Fair Labor Standards Act (FLSA) requires that all covered, nonexempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. In addition, KRS 337.285 states that no employer shall employ any of his employees for a week longer than forty (40) hours in a work week at a rate less than one and one-half (1 ½) times the hourly wage rate at which he is employed. As opposed to paying deputies time and a half, the Sheriff has a policy whereby compensation for transporting prisoners is paid to each deputy at the rate of \$100 net pay per day. This payment replaces overtime that may have been earned.

It appears that this policy is contrary to state wage and hour laws and deputies may be owed additional pay. When two different rates are paid during the same workweek, the half-rate is calculated using an average hourly rate for that week.

Furthermore, it appears that KRS 337.285 (4) requires a cash payment for overtime unless upon the written request by an employee, without pressure or suggestion by the employer, the employee requests to be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1-1/2) hours for each hour the county employee is authorized to work in excess of forty (40) hours in a work week.

We recommend the Sheriff review his personnel policy related to transporting prisoners and payment of overtime to assure compliance with KRS 337.285. In addition, we will refer this matter to the U. S. Department of Labor, Kentucky Department of Wage and Hour, and the Kentucky Retirement System for review.

BOYD COUNTY
TERRY KEELIN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Comply With Federal And State Wage And Hour Laws (Continued)

Sheriff's Response:

None, other than the Sheriff's Department cannot afford to pay time and one half for the transportation of prisoners unless additional revenues are obtained from the fiscal court who are reluctant to increase their contribution to the Sheriff's Office. Therefore the transportation of prisoners would have to be designated to contract labor which would deny the officers any additional compensation which they desperately need causing an undue hardship on them.

The other solution would be to have prisoners transported by on-duty deputies. This would cause a shortage of officers to answer calls for service to the general public not to mention creating the inability of officers to serve the papers of the court which would in-turn shut down the court system.

We are the only entity which is responsible for serving papers, inspecting vehicles, collecting taxes, transporting prisoners, and law enforcement. Therefore, to be forced to send on-duty officers would prevent us from performing all our other duties.

Auditor's Reply:

It is the recommendation of the Auditor of Public Accounts that the Sheriff assure his office's compliance with KRS 337.285. At the time of the audit, his office was following a policy that appears not to be in compliance with this law.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The Sheriff Should Invest Moneys In Interest-Bearing Accounts.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William C. Stevens, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Boyd County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated October 2, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Boyd County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Invest Money In Interest-Bearing Bank Accounts
- The Sheriff Should Comply With Federal And State Wage And Hour Laws



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 2, 2006

